

# **REGULAR BOARD OF TRUSTEES MEETING MINUTES**

## **Tuesday, May 25, 2006**

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Don Bennett called the meeting to order at 10:00 a.m. Other Board members present included Kevin Boehnlein, Karen Davis, Tim Walsh, Cari Whicker and Chuck Schalliol.

TRF staff present included Cristy Wheeler, Bob Newland, Tom Abbett, Crystal Lawson, Phil Barnes, Tom Davidson, Amy Maynard, Dave Yeater, Ken Smithee and Shelley Horner. Also in attendance were Greg Strack of the Budget Agency, Marilyn Edwards of ISTA and Steve Moberly of IRTA.

The Agenda was presented.

Karen Davis moved to approve the agenda. Chuck Schalliol seconded the motion. The motion carried.

The minutes of the March 28, 2006 meeting were presented.

Chuck Schalliol moved to approve the minutes. Tim Walsh seconded the motion. The motion carried.

Shelley Horner presented retiree payments for the month of May and June 2006.

Karen Davis moved to accept the payments. Tim Walsh seconded the motion. The motion carried.

Tom Abbett presented the expenditures for March and April 2006.

Cristy Wheeler discussed the Director's report. Tom Abbett presented the draft for the 2006-2007 budget. This budget is flat to last years' budget. Insurance costs are down due to the number of staff dropping from 50 to 41 and legal counsel costs are down due to the use of in-house counsel and joint project work with PERF counsel – ultimately using less outside counsel. Approval of the budget will be needed at the June Board meeting.

Tom Davidson discussed the 125 Flex Plan. A 125 Flex Plan allows pre-tax dollars to be set aside to pay medical expenses. Ice Miler prepared a plan for TRF which mirrors the state plan. An audit was done to verify we are conducting this plan correctly. TRF will be moving its payroll to the Auditor's office in June 2006, which will save the cost of using an existing outside company to process payroll. The Flex Plan will continue to be administered by TRF through December 2006. In January 2007, TRF will participate in the state 125 plan.

Kevin Boehnlein moved to approve the 125 Flex Plan. Cari Whicker seconded the motion. The motion carried.

Tom Davidson discussed the Administrative Law Judge (ALJ) findings regarding Dr. William Long's appeal of the Board's denial of his request for military service. The ALJ reviewed the case; Dr. Long did not attend. The ALJ upheld the Board's position.

Chuck Schalliol moved to accept the Administrative Law Judges' decision to deny military service to Dr. Long. Kevin Boehnlein seconded the motion. The motion carried.

Tom Davidson presented the Legal RFQ findings. To clarify, Tom Davidson looked up the conflict of interest issue Don Bennett mentioned due to his daughters' future employment with Ice Miller. Tom Davidson found no conflict of interest and asked the State Ethics Commission for their opinion and they concurred. The committee reviewed 13 responses to the RFQ and narrowed the search to 3, eliminating securities litigation firms. They interviewed three firms: Ice Miller, Kreig Devault and Gonzalez, Saggio & Harlan (minority owned firm). The committee recommends contracting with all 3 firms. Each of these firms have unique and talented personnel. Prices were similar to other comparable firms with no retainer fees.

Chuck Schalliol moved to approve the committee's recommendation to contract with the three law firms of Ice Miller, Kreig Devault and Gonzalez, Saggio & Harlan. Karen Davis seconded the motion. The motion carried. Don Bennett abstained from voting.

Ken Smithee presented the Spot Bonus Program to the Board. This state program is designed to recognize approximately 20% of staff per year for exceptional performance. Ken noted this program is a great tool to recognize employees for going above and beyond their normal job duties.

Cari Whicker moved to approve the Spot Bonus Program for TRF. Kevin Boehnlein seconded the motion. The motion carried.

Bob Newland presented the Investment Policy Statement with the changes made at previous Board meetings. The Board would like to defer to next month to approve the Investment Policy Statement.

Steffanie Rhinesmith presented Manager recommendations. The investment staff recommends that Aeltus be removed from the watch list. They were placed on the watch list in November 2004 due to their results lagging behind the Index at the 3 year mark. The investment staff has seen an improvement for the year ending 3/31/06 and would therefore like to remove them from the watch list.

Tim Walsh moved to accept the recommendation to remove Aeltus from the watch list. Kevin Boehnlein seconded the motion. The motion carried.

The investment staff recommends terminating Ariel Capital Management and temporarily hiring Barclays Global Investors (BGI) to invest \$192 Million. This is Ariel's second time on the watch list, most recently at the August 30, 2005 Board meeting due to not meeting one of the quantitative guidelines. Since then their performance has continued to lag the Index, the staff recommends firing Ariel Capital Management. They also recommend to hire BGI temporarily at least for 6 months while a search for a replacement manager occurs.

Chuck Schalliol moved to accept the recommendation to fire Ariel Capital Management. Cari Whicker seconded the motion. The motion carried.

Kevin Boehnlein moved to accept the recommendation to hire BGI temporarily in place of Ariel Capital Management. Tim Walsh seconded the motion. The motion carried.

The investment staff recommends putting Brandywine Asset Management on the watch list due to violation of one of the quantitative guidelines. This would be the second time Brandywine would be on the watch list.

Kevin Boehnlein moved to accept the recommendation to put Brandywine Asset Management on the watch list. Chuck Schalliol seconded the motion. The motion carried.

The investment staff was going to recommend removal of Institutional Capital Management (ICAP) from the watch list due to improvement; however, since ICAP was recently purchased by another firm, the staff recommends that ICAP remain on the watch list.

Bob Newland handed out the Asset/Liability Preview and noted that Callan Associates will be attending the June meeting to conduct an educational session on private equity. Portfolio Advisors and Callan Associates will be attending the August meeting to review results and the 2006 tactical plan on private equity.

The next meeting was scheduled for June 27, 2006 at 10:00 a.m. The July meeting was confirmed for August 1, 2006.

Chuck Schalliol moved to approve adjournment. Tim Walsh seconded the motion. The motion carried. There being no additional business, the meeting adjourned at 11:15 a.m.